

Leadership in Manufacturing

# INDUSTRY WEEK'S THE VALUE CHAIN

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## Buying From Abroad

When sourcing direct materials, the larger the manufacturer, the more willing or able it is to cast its eyes outside of the United States. One of every four firms with annual revenue exceeding \$100 million gets 30% or more of direct inputs from outside of the country. Only one of every six with annual revenues of \$20 million or less sources a

comparable percentage internationally. Many of these smaller companies (28%) don't source any materials globally. How much of a factor is China in shifting sourcing strategies? The survey doesn't directly answer that question. However, slightly more than one-third of survey respondents say they purchase more than 10% of direct materials outside of the North American Free Trade Zone.

### Percentage of Direct Materials Sourced Outside of the United States

	Today (All respondents)	Today (Companies With Annual Revenue Over \$100 Million)	3 Years Ago (All respondents)
0% Sourced	19.8%	9.3%	30.5%
0.1% to 10%	37.8%	30.7%	40%
10.1% to 30%	24.9%	34.7%	16.3%
30.1% to 100%	17.4%	25.3%	13.2%

### Supplier Lead Times Lag

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 Manufacturers seek to connect supply chain

Under usual circumstances, the fact that over half of survey respondents say their suppliers' lead times failed to improve over the past three years could be considered a bad thing. But it also could be argued that simply maintaining supplier lead times given more distant sourcing strategies should be considered a success, particularly if lower-prices have been achieved. The only fly in this ointment? Larger manufacturers, despite a greater dependence on global sourcing, are significantly more likely to report improved supplier performances than their smaller brethren. And despite the lackluster lead time improvement, suppliers have improved on-time delivery over the past three years, from a median performance level of 80% to 90%.

### Change In Supplier Lead Time Over the Past 3 Years

Lead Time Increased	8.1%
Remained the same	47%
Decreased 0.1% to 25%	33.2%
Decreased more than 25%	11.7%

with customer systems.

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Decision-making that was once incidental to the production process has assumed major competitive significance.

### Logistics

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### Going To Market -- Electronically

If you don't yet participate in a private online trading exchange, you're in the clear majority. But that could soon change if growth rates continue. Today, one third of respondents say they make purchases via private online trade exchanges. That's more than twice as many as three years ago (13%). Although they remain less popular, public trading exchanges have seen a similar increase in users.

### Percentage of Purchases Via Private Online Trade Exchanges

0% Purchased	66.5%
0.1% to 5%	10%
5.1% to 10%	8.5%
10.1% to 100%	15%

Key Performance Indicators	Bottom 25%	Median	Top 25%
Supplier lead time, days	28	14	7
On-time delivery	80%	90%	95%
Purchases from certified vendors, % of total spend	40%	75%	90%
Direct materials sourced outside the U.S.	2%	10%	25%
Direct materials sourced outside U.S., Canada and Mexico	0%	5%	20%

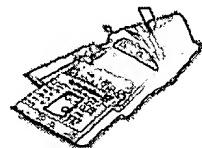


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